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SUBJECT: Hi-Tech Zones in the Western Pearl River Delta Strive to Compete

REF: Guangzhou 0418

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1. (SBU) Summary. Guangdong province is eager to move beyond the labor-intensive export processing industries that have driven much of its growth over the last 30 years to develop hi-tech industries to take their place; hi-tech industrial zones are an important part of its development strategy and have proliferated throughout the Pearl River Delta (PRD). Smaller zones in the less developed areas of the PRD's western bank struggle to compete with larger zones in Guangzhou and Shenzhen, attempting to distinguish themselves by offering special incentives, targeting particular industries and using more flexible management structures among other means. End Summary.

#### Competing With the Big Boys

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2. (SBU) Developing hi-tech industries in the Pearl River Delta (PRD) is one of the top economic priorities of the Guangdong provincial government under Party Secretary Wang Yang's "double transfer" policy, and hi-tech industrial zones are an important part of that effort. According to the provincial government, the output of Guangdong's hi-tech industry totaled RMB 2.2 trillion (US\$320 billion) in 2008. Two of Guangdong's 21 municipalities, Guangzhou and Shenzhen, accounted for much of the output with an industrial output of RMB 294 billion and RMB 225 billion (US\$43 billion and US\$33 billion), respectively, in 2008. However, the share from smaller hi-tech zones in the less developed western PRD were nonetheless consequential and growing. The industrial output of the Foshan Hi-Tech Zone reached RMB 120 billion (US\$18 billion) in 2008. The Zhuhai Hi-tech Zone and Zhongshan Torch Development Zone had output of RMB 113 billion and RMB 81 billion (US\$17 billion and US\$12 billion), respectively. Administrators of these smaller zones acknowledge that they are at a disadvantage in competing with the larger zones in Guangzhou and Shenzhen, but they have found ways to distinguish themselves and attract investors.

Incentives - Building on Existing Benefits

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13. (SBU) The incentives afforded to enterprises operating in the west PRD hi-tech zones are similar to those available to firms the government labels as hi-tech enterprises elsewhere in China. Enterprises in the zones may have a tax rate as low as 15%. Some also receive subsidies for research and development and access to low-cost loans. However, some of west PRD zones have been able to offer additional incentives to enterprises willing to invest there. Qiu Shi, director of the Zhuhai Economic Development Bureau (EDB), explained to us that the Zhuhai Hi-tech Zone also provided an incubator base for small enterprises, setting them up with facilities, advice and up to RMB 20 million in development funds per year. Incentives are not only monetary in nature, but include access to prime land at little or no-cost, priority access to power during a shortage and intangible assets, such as titles and awards that can raise the profile of a company. The government through the zone management streamlines bureaucratic procedures and even some judicial matters. Qiu noted that Zhuhai is planning to build an intellectual property rights (IPR) court in the zone to make it more attractive to firms in the information technology (IT) and software industries.

#### Targeting Industries

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14. (SBU) The Zhuhai EDB's Qiu explained that because the Zhuhai zone cannot compete with the size of the Guangzhou and Shenzhen zones, it focuses on specific industries, especially IT and software. Other hi-tech zones in Guangdong adopt a similar approach. According to Huang Jian, Deputy Director of Zhongshan Torch Development Zone Administration Committee, electronics, health technologies, packaging and printing, specialty chemicals, and automobile manufacturing are the Zhongshan zone's five key industries.

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Hengquin Economic Development Zone, which is in the initial stage of development in Zhuhai, received approval from the State Council in June 2009 for developing a hi-tech area that focuses on research and development (R&D), IT and software, tourism and business services.

#### A Higher Status

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15. (SBU) According to Huang, Zhongshan Torch Hi-Tech Zone's national status gives it a competitive advantage, allowing for more favorable policies. Huang pointed out that the municipal government has more control of the revenues collected by the zone and can freely reinvest it to improve the zone's facilities and services. Zhongshan Torch Hi-Tech Zone, established in March 1990 is one of only four zones given the elevated status of "torch," meaning established by the Ministry of Science and Technology (MST), Guangdong Provincial Government and Zhongshan Municipal Government; the other three torch zones are located Weihai in Shandong province, Xiamen in Fujian Province and one more in Hainan Province. Zhongshan has a management committee composed of leaders from the municipal government and the party committee of the zone and is supervised by the municipal government. According to Huang, services, resources and facilities that are available to the government are also accessible to the companies in the zone and are provided in a timely, efficient manner.

#### Flexible Management

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16. (SBU) Foshan's hi-tech zone claims flexible management is one of its advantages. According to Ye Weifeng, Deputy Director of the Foshan Hi-tech Zone Administration Committee, the Foshan zone has six parks that each focus on their own competitive advantages and develop distinguishing features for their core industries. Ye said that the Foshan zone adopts an open management style with central coordination from the administration committee and free movement to manage and operate for the individual parks. Ye contrasted Foshan's management style with the closed style of Guangzhou's hi-tech zone.

17. (SBU) The hi-tech zones in Guangdong capitalize on their proximity to Hong Kong and Macau. They also benefit from access to multiple airports; the Zhongshan Torch Development Zone is located within 100 kilometers of six major airports. Three container ports along the Pearl River Delta are ranked among the top 10 in China. Zone administrators point out that several new infrastructure projects will increase the competitiveness of the smaller hi-tech zones on the west PRD by improving their transportation links with Hong Kong, Guangzhou and major transportation facilities. These include the Hong Kong-Zhuhai-Macao Bridge, the Zhongshan-Shenzhen underwater tunnel, Guangzhou-Zhuhai rail link and the subway link between Guangzhou-Foshan.

#### Environment

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18. (SBU) Some hi-tech zones like Zhuhai and Hengqin have embraced sustainable development as a selling point. In Zhuhai, pollution emission serves as a criterion for acceptance into the zone. Hengqin prides itself on its natural environment and has incorporated sustainable development in its master plan to maintain tourism and promote industry. Hengqin also has 21 large wind turbines making it the second largest island wind power project in China.

#### Surviving the Downturn

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19. (SBU) The global economic downturn has not lead to a widespread

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decline in the zones, which include many companies that are focused on China's domestic market. Luo Mingzhao, board chairman and senior engineer of Foshan Henglitai Machinery Co., a ceramic tile equipment maker, noticed a drop in sales during the worst of the crisis, but said the central government's stimulus package in May 2009 has helped the real estate industry rebound, improving the demand for tiles. Foshan Nationstar Optoelectronics General Manager Wang Sen told us that the downturn had affected the company to some extent in the first half of 2009. But since the company is mainly doing business domestically, sales have recovered to 80% the previous level, he said.

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